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FISCAL IMPACT STATEMENT

LS 6276

BILL NUMBER: HB 1147

NOTE PREPARED: Dec 27, 2012

BILL AMENDED:

SUBJECT: Motor Vehicle License Tax Credit for Veterans.

FIRST AUTHOR: Rep. Niezgodski

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill allows certain disabled veterans, surviving spouses, and World War I veterans to claim a credit against the annual motor vehicle license excise tax regardless of whether the veteran or surviving spouse owns or is buying other real or personal property against which the veteran or surviving spouse may claim a property tax deduction for disabled veterans, surviving spouses, or World War I veterans.

The bill provides that the Indiana Department of Veterans' Affairs (IDVA) is the agency responsible for substantiating the military service and disability requirements specified for various tax benefits available to veterans, and requires the department to issue certificates of eligibility for those tax benefits.

Effective Date: July 1, 2013; January 1, 2014.

Explanation of State Expenditures: Under current law, a disabled veteran or surviving spouse who qualifies for a property tax deduction must show proof of eligibility to the county auditor either by presenting a certificate from the IDVA or by presenting certain documents from the U.S. Department of Veterans Affairs (VA). Beginning January 1, 2014, this bill would require all verifications for property tax deductions or excise tax credits to be in the form of a certificate from the IDVA. According to the IDVA, the Department already certifies all veterans, so there would be no additional expense to the IDVA.

Additionally, the bill would allow the IDVA to maintain a database of the certificates of eligibility and to provide database access to county auditors, the BMV, and any other governmental entity in Indiana that administers veterans benefits. Any additional costs to acquire and maintain a database would depend on actions taken by the IDVA.

Explanation of State Revenues: State revenues could be reduced by between \$700,000 and \$4.4 M per year beginning in FY 2014. Motor vehicle excise taxes that are captured by the state are deposited into the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Summary:* Local revenue from the motor vehicle excise tax could be reduced by between \$1.4 M and \$8.7 M per year beginning in CY 2014. Revenues in CY 2013 could be reduced by half that amount. Local excise tax revenues are distributed to local civil taxing units and school corporations.

Background: Under current law, WWI veterans, their surviving spouses and certain disabled veterans or their surviving spouses are eligible for a property tax deduction against any real or personal property that they may own. There are two disabled veteran deductions. Details of the deductions are as follows:

WWI Veteran: WWI veterans are entitled to a property tax deduction of \$18,720 on their real or personal property. In order to qualify, the assessed value (AV) of the property may not exceed \$206,500.

Surviving Spouse of WWI Veteran: Surviving spouses of WWI veterans are entitled to a property tax deduction of \$18,720 on their real or personal property. There is no qualification on AV.

Service-Connected Disability: Veterans with wartime service and a service-connected disability of at least 10% or their surviving spouses are entitled to a property tax deduction of \$18,720 on their real property or mobile or manufactured home. There is no qualification on AV.

Nonservice-Connected Disability: Veterans or their surviving spouses are entitled to a property tax deduction of \$12,480 on their real or personal property if the veteran is either totally disabled or is at least age 62 with a disability of 10% or more. The disability need not be service-connected nor does the service need to be wartime service. In order to qualify, the AV of the property must not exceed \$143,160.

Veterans who qualify may receive both disabled veteran deductions. Properties that are co-owned by more than one disabled veteran are subject to multiple deductions.

An individual who is entitled to any of the above property tax deductions may receive a credit against the motor vehicle excise tax for any part of a property tax deduction that was not used against real or personal property. The credit is equal to \$2 per \$100 of unused deduction. So, for example, if a veteran or surviving spouse who qualified for the \$24,960 deduction used only \$20,960 against property taxes, the individual could receive an excise tax credit of up to \$80 ($\$4,000 \text{ remainder} / 100 * \2.00).

In the past, some individuals may have claimed the excise tax credit without owning any real or personal property that qualified for the property tax deduction. The total number of these claims and the amount of these credits cannot be quantified. Excise tax credits are no longer granted if the disabled veteran or surviving spouse does not possess real or personal property that qualifies for the property tax deduction.

Beginning July 1, 2013, this bill would grant excise tax credits to WWI veterans and their surviving spouses, and to disabled veterans and their surviving spouses, who do not own qualifying property if they meet all other qualifications.

Analysis:

Service-Connected Disability: According to the Indiana Department of Veterans Affairs, 61,500 veterans currently receive compensation from the VA for service-connected disabilities. After allowing for the 39,850 veterans who currently receive the service-connected property tax deduction, there are potentially 21,650 additional veterans in this group who could qualify for the credit. Based on the \$24,960 property tax deduction, each excise tax credit could amount to as much as \$499.20. The maximum potential additional excise tax credit for these 21,650 veterans is estimated at \$10.8 M

Nonservice-Connected Disability: If it is assumed that 5% of Indiana's veteran population has a nonservice-connected disability, there could be 21,500 nonservice-connected disabled veterans. (This estimate is based on a total veteran population of 491,000, less the 61,500 veterans known to have service-connected disabilities). The percentage disability of these veterans is not known and not all would qualify for the credit. After allowing for the 12,500 veterans receiving the nonservice-connected property tax deduction, there are potentially 9,000 additional veterans in this group who could qualify for the credit. Based on the \$12,480 property tax deduction, each excise tax credit could be as much as \$249.60. The maximum potential additional excise tax credit for these 9,000 veterans is estimated at \$2.2 M.

There are many unknowns including (1) the actual number of nonservice-connected disabled veterans, (2) the percentage disability for these veterans, (3) the number of surviving spouses that would qualify, (4) the percentage of the disabled veterans who own vehicles subject to the excise tax, and (5) the amount of excise tax currently paid on those vehicles. Some of these factors may add to the estimate while others would reduce the estimate.

There would be a maximum exposure of \$13 M per year only if 30,650 individuals qualify for the credit and use the maximum amount of their credit. However, If 30,650 additional veterans each receive an excise tax credit on one vehicle at an average of \$70, the cost of the credit could be as low as \$2 M per year.

These credits would reduce excise tax collections. About two-thirds of the revenue reduction would impact local government units and school corporations while one-third would impact the state.

Additional Information: In CY 2011, the BMV collected \$384.5 M in motor vehicle excise tax. An additional \$236.4 M in excise tax replacement came from the state Lottery and Gaming Surplus Account and the state General Fund. Total excise tax revenues (plus replacement) were \$621.2 M.

Without LaPorte County, the state captured \$204.4 M of the \$621.2 M as part of the property tax reform that took effect in 2009. The remainder, \$406.1 M (not including LaPorte County), was sent to the counties for distribution to local taxing units. So, about two-thirds of excise tax collections are sent to local units while one-third is retained by the state.

The \$384.5 M in excise taxes were paid by 5.5 M registrants. The average excise tax paid was \$70.

State Agencies Affected: Bureau of Motor Vehicles.

Local Agencies Affected: County auditors; Local civil taxing units and school corporations.

Information Sources: Elizabeth Murphy, Bureau of Motor Vehicles; Tom Applegate, Indiana Department of Veteran Affairs; LSA parcel-level property tax database.

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